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ESTATE PLANNING & ADMINISTRATION
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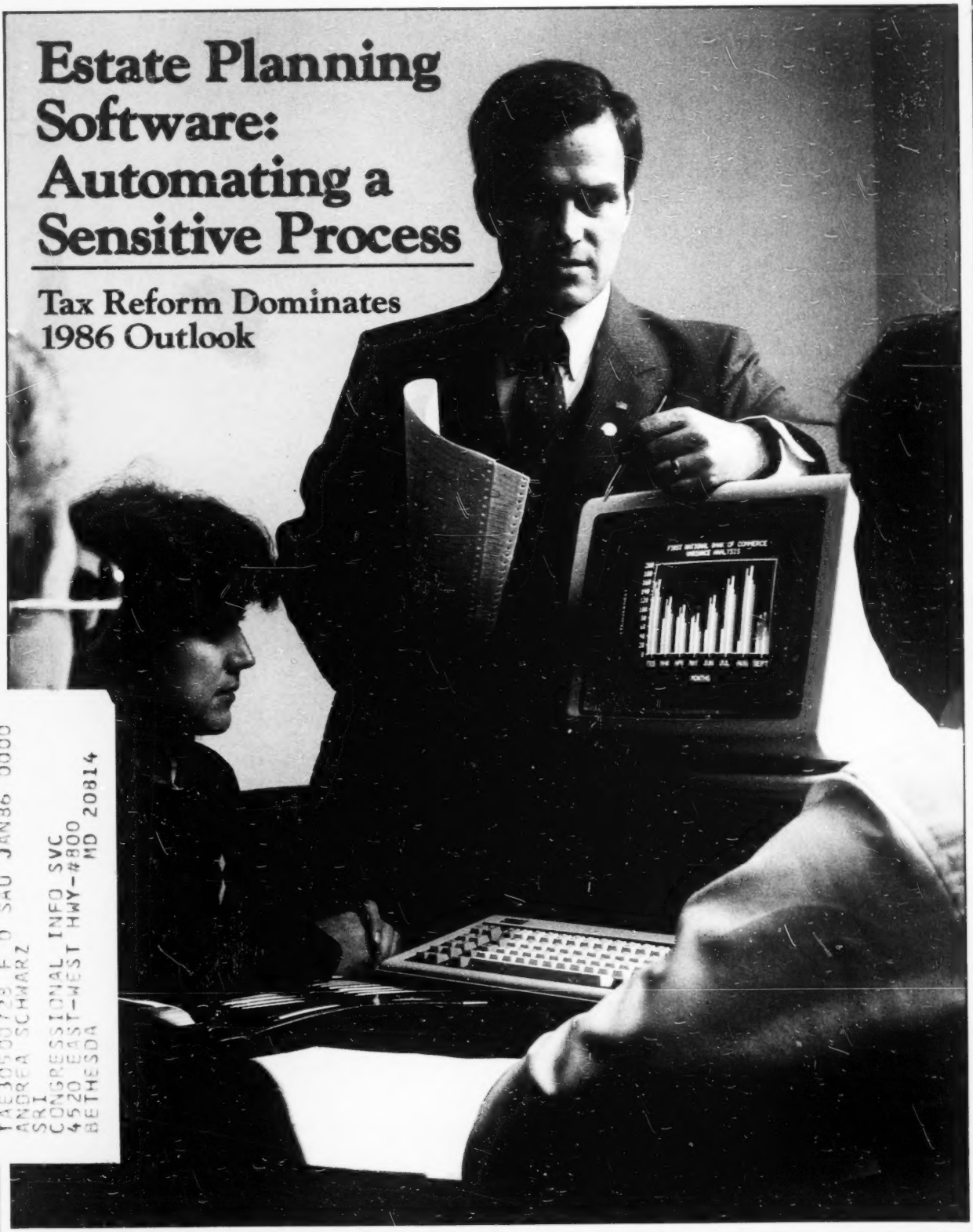
JANUARY 1986

Estate Planning Software: Automating a Sensitive Process

Tax Reform Dominates 1986 Outlook



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Computer software helps estate planners pinpoint potential pitfalls and benefits for their clients. Photo by Paul Rico, courtesy of the First National Bank of Commerce, New Orleans, La.

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Trends & Developments

Computers "Byte-ing" into Financial Field

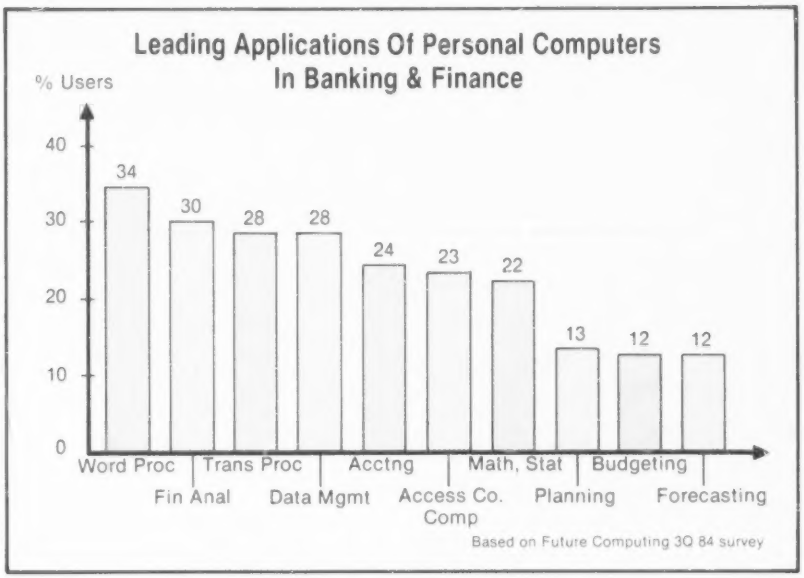
By JENNIFER BAILEY
Managing Editor

Personal computers are on the rise in the financial field. According to a report by Future Computing Incorporated, a marketing research firm, the number of personal computers in use in the banking and finance fields will increase from 640,000 units in 1984 to nearly 1.9 million units in 1990.

The Dallas, Texas-based research company reports that the computers are used for word processing, financial analysis, transaction processing, accounting, planning and budgeting.

"Deregulation is dismantling traditional barriers between the banking, securities and insurance industries in this country," says Laurie Windham, senior analyst at Future Computing. "The changes in law have brought new opportunities for businesses in these industries to expand — as well as new competition.

"Personal computers are playing an integral role in the competitive strategies of these companies. They allow a company to cut costs while providing innovative products and services geared to specific client needs," Windham says.



In the continuing tale of tax reform, two IRA-related measures were tucked into the Ways and Means Committee bill, which passed into the House in mid-November. The first would tie IRAs with 401(k) plans, so that each dollar an employee contributes to a 401(k) plan would reduce the amount he or she can contribute to an IRA by the same amount. Thus, a person contributing $2,000 or more to a 401(k) would not be eligible for an IRA. The maximum 401(k) contribution has also been reduced to $7,000. In addition, the same IRA offset proposal would apply to contributions made by millions of teachers and employees of tax exempt organizations, such as churches, to their 403(b) retirement programs.

IRA contribution limits for nonworking spouses were not increased, either. The Administration has backed away from supporting this proposal, despite endorsement during the 1984 presidential compaign. Families with only one working spouse will continue to be eligible for only $2,000 in IRA contributions.

Also up on the Hill, House Banking Committee Chairman Fernand St Germain's tax situation is worsening. Insiders in Washington say his reputation may be suffering as well.

The House Ethics committee has begun investigating St Germain's ties to federally regulated financial institutions. Rep. Julian Dixon, chairman of the Ethics Committee, is talking to two attorneys about temporarily acting as special counsel if a full-blown investigation develops.

The tip of St Germain's iceberg is the tax deductions on four coal-mining partnerships. When the IRS began investigating the Swanton Corp., the corporation that promoted the shelters, after they entered Chapter 11 bankruptcy proceedings, St Germain's name came to light. The IRS has disallowed all the deductions from the shelters and wants back taxes from the partners involved.

An interesting note to the continuing drama of St Germain's tax problems is an ongoing feud with the *Wall Street Journal*. He has complained that their stories cast his investments in the "worst possible light," and he said during an interview in the *Providence Journal* that "he expected the *Wall Street Journal* would publish another

(Continued on page 60)

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Estate Planning for the Single Person

Changing Attitudes Toward Marriage Challenge Estate Planners

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Social change is making the single person increasingly important for estate planners, practitioners report. Cover photo by Burks Echols.

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Marketing Investment Services for the Affluent

One bank coordinates personal trust, private banking and personal financial management to increase its share of the affluent market

By **WALTER F. GRAY**
Executive Vice President
Mercantile Trust Company N.A.
St. Louis, Mo.

Like many banks, we would like to expand our services to the affluent market and do more business with these choice customers. To this end, we have studied and modified our investment products. And while we have not completely merged all of the departments that deal with affluent customers, we have centralized marketing for the affluent and tried to promote cooperation and cross selling of services.

Our conclusion, based on experience and analyses of what others are doing, is that once a decision is made to target the affluent for investment services, any organizational structure works if the program is properly implemented and monitored. However, our studies and results show that convenience and personal attention are keys to the affluent customers, so the more integrated the marketing, recruiting and training, the better, so long as diverse expertise is maintained.

In 1982, Mercantile Trust Co. developed the "Executive Banking Concept" in its Consumer Banking Department to serve the total financial needs of upscale customers through a separate department. Each customer with annual income over $50,000 and $150,000 or more in net worth was assigned a private banker to be his "financial facilitator."

In the Trust Department, we divided our personal trust clients between active investors and more passive investors. Active investors were those who indicated a willingness to make investment changes for price as well as fundamental reasons, to invest in smaller capitalized companies, to seek tax shelters, to have more frequent meetings, and most important, to pay higher fees.

The active investors were moved to a new Personal Financial Management Unit. The number of client relationships for each investment officer was reduced to 25 on average, and attempts were made to match personalities, provide frequent communication at least weekly and offer in-depth quarterly reviews of performance, investment changes, and the client's objectives.

Financial planning became the basic approach to clients of both units, and a needs analysis document was created for general use. This financial needs document is basically an overview of the client's net worth and cash flow, plus information about his family. It has become the basis for current investment and cash management decisions as well as a formal financial plan outlining the steps to reach lifetime goals and estate needs.

We assigned each customer to a team of two specialists — a private banker and an investment officer — who would be jointly responsible for serving him. One of the two was designated as the primary contact, depending on whether lending or investment activity would drive the account relationship.

In addition, we developed an integrated marketing plan for the two units to project a consistent image and emphasize new business generation. We separated marketing responsibility from personal trust and brought in a professional with training and experience in financial planning and investments for the personal financial management unit. We then launched an extensive direct mail and tracking program. We also developed sales and cross-product training courses for the combined affluent staff, using financial planning as the base.

We emphasized marketing and personalized service, but studies of product usage by affluent clients led us to review the investment product line and develop an important missing tax shelter product along with financial planning. We now have centralized product development in the planning department with one person dedicated to the affluent market for both banking and investment products.

We looked for a way to segment and target new prospects and affluent customers of the bank who were not using our investment products. We studied

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Editors Note: This article is adapted from a talk Mr. Gray made at the American Bankers Association National Trust and Financial Services Conference last February in Orlando, Fla. It outlines an experiment by Mercantile Trust Co., St. Louis, Mo. That bank ranked first among banks participating in Trustcompare in its investment management services.

the financial life cycle of the individual ranging from the emerging affluent to the retired affluent. We adopted the market segments developed by Payment Systems, Inc., dividing the market into eight segments:

- the low-end affluent.
- the career affluent.
- the young affluent.
- the retired.
- the high income/full nest group.
- senior executives.
- established entrepreneurs
- established wealth. (See Table 1.)

We then tried to match PSI's eight segments with their maximum use of our eight services: asset management, investment loans, financial planning, tax shelters, IRA's, discount brokerage, trust, and tax planning. (See Table 2.)

We determined that the segments most likely to use asset management were *established wealth, senior executives, entrepreneurs, career affluent* and *retired affluent,* for financial planning, it was *senior executives, entrepreneurs, established wealth, career affluent* and *young affluent.* For tax shelters, *senior executives, entrepreneurs, established wealth* and *career affluent.*

Low-end and *full-nest affluent* were not targeted for solicitation.

Next, we consolidated the eight segments into two: wealth accumulators and wealth protectors.

We assigned the wealth accumulators to PFM for solicitation and the wealth protectors to personal trust, recognizing that the wealth accumulators would be the hardest sell for investment services.

Analysis of Our Market

An in-depth study was made by our planning department to determine the market potential, customer needs, the optimum affluent delivery system and the profit potential if we organized as I have just described. We surveyed fifteen banks recognized as successful in serving the affluent and made extensive use of focus groups, including clients and non-clients of our bank.

The market potential in Missouri and the St. Louis metropolitan area was

Table 1

Affluent Market Segment Characteristics

Segment	Average Age	Average Income	Average Net Worth	Investment Orientation
Low End Affluent	51	$ 63,200	$300,500	Passive; very conservative; high credit demand
Career Affluent	59	$121,500	$551,800	Active; moderately conservative; tax minimization
Young Affluent	29	$ 86,800	$231,000	Active; growth oriented; high use of leverage
Retired Affluent	67	$ 74,700	$671,700	Passive; income-driven; principal maintenance
High Income/ Full Nest	49	$ 62,500	$287,000	Passive; conservative; high credit demand
Senior Executives	54	$172,700	$732,700	Active; profit-driven; moderate risk; dislike banks
Established Entrepreneurs	51	$153,000	$1.1 million	Active; profit-driven; high use of leverage; dislike banks
Established Wealth	59	$291,000	$3.2 million	Active; profit-driven; dislike banks

Table 2

Affluent Segment Product Usage Matrix

	Low End Affluent	Career Affluent	Young Affluent	Retired Affluent	Senior Executives	Established Entrepreneurs	Established Wealth
IRAs	109	**128**	85	62	**132**	107	92
Investment Loans	102	109	**133**	57	**128**	**159**	104
Tax Planning	88	**119**	79	84	**123**	**142**	**142**
Tax Shelters	79	**120**	66	74	**145**	**150**	**166**
Financial Planning	85	102	98	105	**202**	**127**	**134**
Full Service Brokerage	88	101	63	108	**117**	107	**122**
Discount Brokerage	108	87	**113**	108	**113**	56	**118**
Asset Mgmt. Accounts	71	102	79	107	**134**	106	**173**
Margin Accounts	90	**127**	**134**	89	**201**	**157**	**134**
Trust Services	81	96	78	91	**131**	**159**	**177**

Numbers are indexed, using 100 to represent level of usage by the affluent market as a whole. High usage numbers (over 110) are indicated in boldface. The High Income/Full Nest group was not included in this survey.

found to be significant. About 8 percent of Missouri households (152,000) have annual incomes of more than $50,000, and one-half of these reside in the St. Louis area. By 1990 this market is expected to increase by 45 percent. Taken as a group, the affluent market differs from the rest of the population not only in its greater wealth, but also in its other demographic characteristics and financial behavior. Professionals dominate the occupational roles, with 28 percent; another 20 percent are or were corporate executives. Entrepreneurs/self employed business persons and middle managers accounted for 12 percent and 17 percent, respectively.

Income Sources

The principal source of income was found to be salaries and/or professional fees. Virtually all (96 percent) receive income from interest or dividends, and 55 percent realize capital gains, while 40 percent of the affluent receive some income from investments in real estate.

Some 40 percent of the affluent have self-reported net worth in the $200,000-$500,000 range, excluding primary residence. The second largest concentration of affluent people (22 percent) is in the $500,000 to $1 million net worth range, and a substantial 14 percent are millionaires.

They are more likely to have funds invested in municipal bonds, CD's and closely held corporations or partnerships than in highly speculative areas such as stock or commodity options, R&D partnerships, and venture capital investments.

The basically conservative assets held by the affluent indicates that Mercantile can serve many of their financial needs, and that significant opportunities exist to gain new business with an affluent product line.

They are neutral on the issue of borrowing money to take advantage of investment opportunities. Affluent consumers prefer the personal touch. A slight majority (52 percent) believe that financial institutions should provide extra services and greater convenience for customers.

Penetration Potential

Several products and services — specifically, tax exempt or sheltered investments, financial planning and discount brokerage — appear to have significant penetration potential for financial institutions. Although all of these products exhibit relatively low current usage, affluent consumers report the highest intention to begin using these products.

Studies of product usage by affluent clients led us to review the investment product line and develop an important missing tax shelter product along with financial planning.

In addition, asset management accounts, tax planning and trust services show fairly high appeal. Concentration on the sale of these low penetration/high potential products may result in additional business from affluent customers.

Our bank's survey also indicated that different segments of the market are interested in different products, only a small percentage would use all products.

The danger of full integration of investment and deposit/credit services is the loss of specialty expertise and competitive position for trust services; to succeed with separate departments, however, a bank must have well coordinated marketing plans and cross training in all products.

We knew it was not realistic to expect to capture the affluent customer's "total financial relationship." The majority of the affluent presently divide their business among six financial service providers. Favorable attitudes towards brokers and independent professionals for financial advice and investment services limit our potential for gaining business in these areas.

Our Conclusions

Mercantile's current affluent product line, we decided, needed to be enlarged to include greater emphasis on leveraged investment lending in order to gain affluent business.

The affluent customer's product usage follows a fairly predictable pattern as wealth is built, from use of transaction services, to credit, to investment management, and finally, to fiduciary services. While the customer's pattern of service use was clear, Mercantile's various departments serving affluent groups lacked knowledge of each other's customers as well as the extent of their own customers' relationships with other Mercantile departments. Our banking people were transaction oriented and did not look at the total financial situation of customers.

Finally, active investors did not consider Mercantile for creative money management. We needed to do a better job of building long term relationships with our clients.

Our response was to identify the logical client base, both current bank customers and prospects; establish the

Table 3

MTC Affluent Customers by Segment

	Private Banking	Personal Trust	Personal Financial Management
Low End Affluent	Combined w/ High Income/ Full Nest	23.0%	0
Career Affluent	14.5%	3.0%	10.0%
Young Affluent	2.7%	2.0%	0
Retired Affluent	20.7%	39.0%	0
High Income/ Full Nest	34.7%	1.0%	0
Senior Executives	12.9%	10.0%	25.0%
Established Entrepreneurs	6.3%	2.0%	25.0%
Established Wealth	8.2%	20.0%	40.0%

Table 4

Trust Department "Investment" in Affluent Market

Mercantile's trust department
- Serves 81.5% of MTC's affluent customers.
- Accounts for 54.6% of affluent revenue.
- Contributes 80.0% of net profit.
- Employs 85.7% of the affluent staff.

Table 5

Mercantile Affluent Customer Demographics

Characteristic	Private Banking	Personal Trust	Personal Financial Management
Average Age	N.A.	67	52
Average Income	$107,900	$ 60,000	$ 208,800
Average Net Worth	$879,500	$650,000	$2,682,900
Average Revenue Per Customer	$ 5,775	$ 1,900	$ 5,900
Average # Products Per Customer	4.2	.72	2.0
Top Occupations	N.A.	Widows of Corporate Executives	Corp. Executives Professionals, Entrepreneurs

needs of those clients, using financial planning as the base from which to determine the needs; develop products to meet the needs; select and train people to provide the products; emphasize client communication in a pleasant environment, and establish account loads and fees to meet our profit objectives and properly serve the customer.

Results

On balance, creating the Personal Financial Management Department has improved relationships with our most important clients through more creative investing and greater use of products, and it has brought out the best in investment and financial planning officers, who are historically private bankers.

With trust, bond, consumer banking and the affiliates soliciting their own customers, the bank benefits by greater coverage of our potential market followed by cross selling of the full range of products as appropriate, and the customer benefits from the separate expertise of investment and commercial banking.

Financial Results

Excluding transfers, the growth in customers in the PFM unit has been moderate, about 10 percent per year, but growth in assets under management and profit growth have been substantial. Revenues have grown from $382,000 in 1982 to $1.6 million in 1985, and pretax profits rose from a $182,000 loss to a $750,000 profit during the same period.

Assets under management grew at a compound annual rate of 52 percent — to $340 million in 1985 for 238 clients. Our equity performance has stayed in the top quartile and we closed 1985 with a composite total return of 34.9 percent compared to 31.7 percent for the S & P 500.

We still have problems to solve and missed opportunities to capture. Our client survey shows that private banking, personal financial management and personal trust serve different market segments. This lack of segment overlap is evidence of insufficient target marketing and cross selling efforts. Private banking does not appear to be targeting the most potentially profitable segments — the young affluent, senior executives and entrepreneurs. (See Table 3.)

The trust department has the greatest investment in the affluent market. (See Table 4.) Basically, referrals by departments are voluntary and infrequent, flowing much more often from trust to private banking than the reverse. Only 5 percent of private banking customers are also customers of PT and only 16 percent use PFM services, indicating that significant potential for cross selling remains.

We assigned the wealth accumulators to PFM for solicitation and the wealth protectors to personal trust, recognizing that the accumulators would be the hardest sell for investment services.

Personal financial management customers are the wealthiest, provide the highest revenue per customer, and are typically professionals, corporate executives, or entrepreneurs. Personal trust's customers, on the other hand, are older, are "moderately" affluent, and are predominantly widows of corporate executives. (See Table 5.)

To maximize mercantile's affluent market potential, coordinated sales and promotional efforts are required. A more detailed marketing plan needs to be developed to ensure the implementation of joint promotions and to project a consistent image to our affluent customers.

This includes
- expanding CIF to identify trust relationships and affluent customers.
- increasing investment lending through the use of collateralized loans for tax sheltered investments.
- arrranging a referral program with affluent programs of upstream banks for loans too large or too unusual for Mercantile to approve.
- assigning customers to one relationship banker from the task force of lender, financial planner and investment officer. Lending is our ace in the hole, particularly to attract the emerging and young affluent.
- adopting an incentive compensation plan for account officers related to sales, investment performance, customer satisfaction and profits — something more than the current annual awards luncheon.
- recruiting and training, including lending authority for trust officers.

A completely integrated organizational structure will be our next step if we are not able to pull our units together with planned coordination. □

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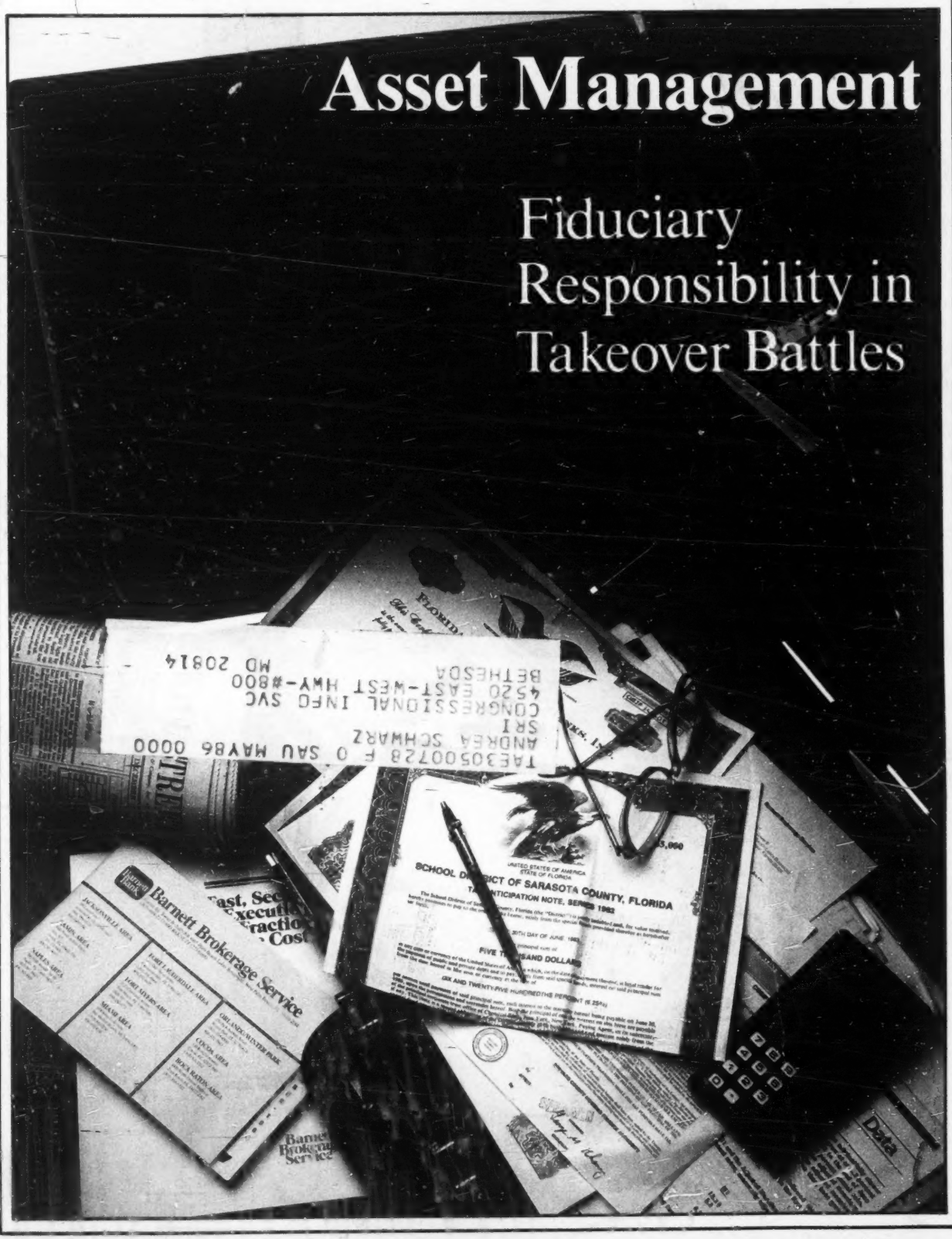
Asset Management

Fiduciary Responsibility in Takeover Battles



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COVER

The resurgence of common stocks and the emergence of more entrepreneurial customers are changing the opportunities and challenges of asset management. Cover reprinted with permission from the 1984 annual report of Barnett Banks of Florida, photography by McElwee & McElwee, Inc., Winter Park, Fla.

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Equity Performance from 1976-85: How Bank Trust Departments Measure Up

Banks do well, especially for consistency and in down markets, compared to the competition

By **ROBERT A. LEVY**
President
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Our new study, undertaken by CDA Investment Technologies Inc. on behalf of the American Bankers Association's trust division, updates a similar project completed in January 1985, covering the ten years ended December 31, 1984. The purpose of both studies was to determine, analyze and compare the equity performance of banks, insurance companies, mutual funds and investment advisors over the most recent ten-year period.

Our analyses are limited to common stock funds. More specifically, we include 298 bank pooled funds, 65 insurance company separate and variable accounts, 310 mutual funds (having an investment objective of growth or growth and income), and 300 investment advisors. In total, more than $399 billion in common stock assets are covered.

We have evaluated five time periods:
(1) the 3-year period from 12/31/82 through 12/31/85;
(2) the 5-year period from 12/31/80 through 12/31/85;
(3) the 10-year period from 12/31/75 through 12/31/85;
(4) the bear market from 3/31/81 through 6/30/82;
(5) the ensuing bull market from 6/30/82 through 12/31/85.

Banks Perform Well

For the most recent three years, the weighted average bank and insurance company returns surpassed the other two groups. Banks and insurance companies were also higher over five years. However, over the longer-term ten-year interval, the mutual funds outperformed both the banks and insurance companies (see Table 1).

During the 15-month down-market from 3/31/81 through 6/30/82, mutual funds and banks led the pack, while the investment advisors trailed significantly (due in part to their somewhat higher risk posture). In the subsequent bull market from 6/30/82 through 12/31/85, the banks and insurance companies beat the mutual funds and even outpaced the investment advisors whose higher risk should have generated better-than-average returns (see Table 2).

On a risk-adjusted basis, two of the groups (banks and mutual funds) did

Table 1
Annualized Rates of Return
(for periods ending 12/31/85)

	1985	3 YRS	5 YRS	10 YRS
Banks	30.7	18.8	14.5	13.8
Insurance Companies	31.8	18.9	14.6	14.1
Mutual Funds	27.9	16.3	13.4	14.3
Investment Advisors	32.8	17.4	13.4	n/a
S&P 500	31.7	19.6	14.6	14.2

Table 2
Cycle Rates of Return

	Down Market	Up Market
	3/31/81-6/30/82	*6/30/82-12/31/85*
Banks	– 12.4	121.5
Insurance Companies	– 13.2	123.4
Mutual Funds	– 12.0	107.2
Investment Advisors	– 16.3	118.9
S&P 500	– 13.6	125.8

Table 3
Three-Year Returns
12/31/82-12/31/85 annualized

	Percentile Points by Manager				
	05	*25*	*50*	*75*	*95*
Banks	23.8	19.7	16.9	14.7	10.2
Insurance	22.5	17.6	15.8	14.3	11.0
Mutuals	23.4	18.8	15.3	12.2	7.0
Advisors	27.2	21.1	17.9	15.1	11.0

Table 4
Five-Year Returns
12/31/80-12/31/85 annualized

	Percentile Points by Manager				
	05	*25*	*50*	*75*	*95*
Banks	20.7	16.9	14.6	11.6	8.4
Insurance	19.7	16.0	13.9	11.4	9.0
Mutuals	20.9	16.3	13.0	10.2	6.7
Advisors	22.5	16.9	13.9	11.3	8.3

slightly better than they did before the risk-adjustment process. The investment advisors, notwithstanding their higher risk, did worse than the market; thus, their risk-adjusted returns were even poorer.

Median returns can and do differ materially from asset-weighted averages. The medians are unweighted, unaffected by extremes, limited to funds for whom we have returns for the full period, and impacted by a survivorship bias. Nevertheless, they may be a useful indicator of the outcome for a typical investor.

If we assign a percentile ranking to each manager group median within the overall universe of managers, the banks and advisors are in the top half over three and five years, and the mutual funds produce very good returns over ten years, offset by much poorer returns during the shorter and more recent periods.

Considering the market cycle periods, banks did well for the full cycle; insurance companies and mutual funds held the middle ground, and the investment advisors performed volatilely, as their higher risk would lead us to anticipate.

High Consistency

One element of risk is of course the variability of returns over time for a given manager. A different element of risk, encountered by any investor faced with the task of selecting a manager, is the consistency of results among managers within each manager group. This latter element can be assessed by examining the cross-sectional standard deviation among managers, as well as the spread between the 5th and 95th percentiles within each group.

On both bases, we conclude that the bank and insurance results are most uniform, and the mutual funds are the least.

The financial community agrees that rates of return should not be compared without consideration of the level of risk incurred. It would be just as inappropriate to compare the performance of a high-risk stock fund with a low-risk stock fund as to compare the return on an all-stock fund with that of an all-bond fund.

There are two points about risk-adjusted performance worth noting. First, the banks and mutual funds are slightly less risky than the S&P 500. Accordingly, they would not be expected to produce quite as high a return over the three periods (all of which were advancing markets). Since risk-adjusted returns are simply a comparison between actual and expected results, these two manager groups perform somewhat better on a risk-adjusted basis than they did before the risk adjustment process.

Second, the investment advisors were materially more risky than the S&P 500. Accordingly, they would be expected to do better during the three and five-year intervals for which data were available. Actually, they did worse than the market.

Risk vs. Return

Another way of analyzing the issue of risk vs. return is to look at the results for individual managers rather than group aggregates.

The wide scatter of observations for the four investment groups indicates little relationship between return and risk for the five-year period ended 12/31/85. While this is somewhat unusual, it should be considered in light of the equally unusual capital market conditions which prevailed. Treasury bills earned 10.2 percent annually over the period, while the S&P 500 advanced 14.6 percent. This 4.4 percentage point spread is well below the average annual spread of 6.4 percentage points for the 60-year span from 12/31/25 through 12/31/85.

The banks' performance compared favorably over three and five years but not as well over the first five years of the decade.

The median bank lies approximately on the capital market line, reflecting a risk-adjusted return of near zero. The insurance companies, mutual funds and advisors show the same wide scatter as the banks, but the median manager in each group clearly has a negative, risk-adjusted result.

In Table 3 we have recorded the 5th, 25th (1st quartile), 50th (median), 75th (3rd quartile) and 95th percentile points for each manager group over the three years ended 12/31/85. The 5th percentile point, for example, represents the manager whose performance exceeded all but 5 percent of the managers in his group. Similarly, the 95th percentile point represents the manager who was outperformed by 95 percent of his peers.

High Bank Consistency

In terms of consistency, the spreads between the 5th and 95th percentiles are 13.6 percentage points for the banks, 11.5 for the insurance companies, 16.4 for the mutual funds, and 16.2 for the investment advisors. Clearly, the banks and insurance companies show greater uniformity than the other two groups.

Next, let's examine the five-year percentiles (Table 4). For the five-year period, the mutual funds and advisors evidence the least consistency, with the spread between the 5th and 95th percentiles equal to 14.2 percentage points. Comparable spreads are 12.3 for the banks and 10.7 for the insurance companies.

Ten-year medians are also similar to the corresponding weighted averages,

Table 5

Ten-Year Returns

12/31/75-12/31/85 annualized

	Percentile Points by Manager				
	05	*25*	*50*	*75*	*95*
Banks	17.9	15.2	13.5	12.2	10.4
Insurance	19.1	16.2	14.2	12.6	10.6
Mutuals	23.7	17.9	15.8	13.4	10.0

Table 6

Median Fund Percentiles

	3 yrs	5 yrs	10 yrs
Bank Median	45	44	62
Insurance Median	57	49	51
Mutual Fund Median	63	58	33
Investment Advisor Median	37	49	N/A

with the exception of the mutual funds whose median is significantly higher (Table 5).

A convenient way of looking at each of the manager groups over all three time intervals is to create a composite universe, then determine the percentile for each group median within that universe. These results are shown in Table 6.

To explain further, the bank median over three years is at the 45th percentile within the overall universe. This means that the typical bank outperformed 55 percent of all managers among the four groups included in our study. On this basis, the banks and advisors are in the top half over three and five years, and the mutual funds produce very good returns over ten years, offset by much poorer returns during the shorter and more recent periods.

Down-Markets and Up-Markets

Still another way in which risk may be investigated is to look at the distribution of returns during a declining market. A real and practical measure of risk is the manager's ability to preserve capital during a bear market. The percentile points by manager group for the 15-month decline from 3/31/81 through 6/30/82 are reported in Table 7. Our analysis showed that the smaller funds withstood the market setback much better than did the larger funds.

For the banks, the decline was a period of remarkably good performance. Their median decline was only slightly more than half of the S&P 500. Moreover, at each percentile point, their returns were higher than any of the other manager groups. The reverse was true of the investment advisors.

As might be expected, the advisors, who were hit the hardest during the decline, bounced back the fastest during the ensuing 42-month advance. (See Table 8.)

Even though the bank and insurance medians lagged the investment advisors, they experienced less of a spread in results between the 5th and 95th percentiles. The numbers were 78.2 for the banks, 75.6 for the insurance companies, and 85.5 for the advisors. The mutual funds had a difficult time, with the lowest median return and the highest spread (101.1).

The banks did reasonably well for the full cycle — bettering 61 percent of the managers on the downside, and hovering close to the midpoint on the upside. The insurance companies and mutual funds held the middle ground, and the investment advisors performed volatilely, as their higher risk would lead us to anticipate.

Conclusion

Our overall objective in conducting this study was to compare bank equity performance with that of other manager groups. We conclude that the banks' performance compared favorably over three and five years, but not as well over the earlier five years of the latest decade.

Further, the banks did quite well during the most recent down-market, and exhibited a greater consistency among managers than did the mutual funds and advisors. □

This article is drawn from data gathered for a study of bank equity portfolio performance commissioned by the trust division of the American Bankers Association and reported in *Equity Performance 1976-1985: Banks Vs. Other Managers*, copyright 1986 by the American Bankers Association.

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Table 7

Down-Market Returns

3/31/81-6/30/82

	Percentile Points by Manager				
	05	*25*	*50*	*75*	*95*
Banks	6.3	−1.7	−7.1	−12.2	−19.1
Insurance	0.3	−5.3	−8.5	−14.2	−18.8
Mutuals	5.6	−3.7	−9.0	−15.6	−22.5
Advisors	−1.3	−9.6	−14.2	−19.0	−25.6

Table 8

Up-Market Returns

6/30/82-12/31/85

	Percentile Points by Manager				
	05	*25*	*50*	*75*	*95*
Banks	146.8	122.3	108.1	92.9	68.6
Insurance	148.9	121.2	104.9	87.8	73.3
Mutuals	153.4	118.1	103.0	84.2	52.3
Advisors	179.7	144.4	122.8	108.5	94.2